

Message Text

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PAGE 01 BEIRUT 03810 01 OF 02 051017Z
ACTION SS-25

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C O N F I D E N T I A L SECTION 1 OF 2 BEIRUT 3810

EXDIS

E.O. 11652: GDS
TAGS: OVIP (VANCE, CYRUS R.) LE, PDEV, MARR, MOPS, SY, IS
SUBJECT: PLENARY SESSION OF SECRETARY'S PARTY IN BEIRUT AUGUST
3 - BILATERAL ISSUES

REF: BEIRUT 3779

1. SUMMARY: LATTER PART OF MEETING OF SECREATRY AND HIS
PARTY WITH GOL DELEGATION LED BY PRIME MINISTER HOSS AND
FOREIGN MINISTER BOUTROS AUGUST 3 DEALT WITH BILATERAL
ISSUES. (REFTEL COVERS DISCUSSION OF MIDDLE EAST PROBLEM).
PRIMARY BILATERAL TOPICS WERE:

- A. US ASSISTANCE TO LEBANESE ARMY IN FY 77, 78, AND 79;
- B. US ECONOMIC ASSISTANCE IN FY 78;
- C. AID TO LEBANON FROM THIRD COUNTRIES;
- D. SOUTH LEBANON, LEBANESE-PALESTINIAN RELATIONS, POSSIBILITY
OF UN TROOPS IN THE SOUTH.

END SUMMARY.

2. FOLLOWING IS AN UNCLEARED RESUME OF THAT PART OF
MEETING OF US DELEGATION HEADED INITIALLY BY THE
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SECRETARY, LATER BY DEPUTY SECRETARY HABIB, WITH PRIME
MINISTER EL HOSS, FOREIGN MINISTER BOUTROS AND SEVERAL
FOREIGN MINISTRY OFFICIALS AT BAABDA PRESIDENTIAL PALACE
AUGUST 3, DEALING PRIMARILY WITH BILATERAL ISSUES.

3. FOREIGN MINISTER BOUTROS ASKED ABOUT AMERICAN SUPPORT FOR
LEBANESE ARMY. SECRETARY VANCE SAID THAT USG HAD PRO-

POSED TO CONGRESS A TWENTY FIVE MILLION DOLLAR FMS CREDIT PROGRAM FOR FY 77. FOR FY 78 AND 79 TOGETHER, USG "PLANNING FIGURE" WAS 75 MILLION DOLLARS, AGAIN IN FMS CREDITS, SUBJECT TO CONGRESSIONAL APPROVAL. SECRETARY SAID HE EXPECTED THAT LEBANON WOULD ALSO BE SEEKING AND RECEIVING HELP FROM OTHER SOURCES. HE SAID HE WAS WILLING TO MENTION PROPOSED US MILITARY ASSISTANCE PROGRAM THAT DAY IN HIS PRESS STATEMENT.

4. TURNING TO US ECONOMIC ASSISTANCE, SECRETARY NOTED THAT PRESENT US PLAN FOR FY 78 WAS FOR \$20 MILLION IN GRANT AID, A \$15 MILLION HOUSING GUARANTEE (IF THE GOL IS INTERESTED), AND AN \$8 MILLION PL-480 PROGRAM, FOR A TOTAL AID PACKAGE OF \$43 MILLION.

5. SECRETARY ASKED, WHAT AID WAS LEBANON RECEIVING FROM OTHER COUNTRIES? PRIME MINISTER HOSS RESPONDED THAT LEBANON HAD COMMITMENTS FROM VARIOUS ARAB FUNDS, INCLUDING THE ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT, THE KUWAITI FUND AND THE ABU DAHBI FUND. GOL HAS SUGGESTED VARIOUS PROJECTS. ARAB FUND HAD AGREED TO FINANCE FOURTHTH BASIN AT PORT PLUS ELECTRICITY PROJECT. KUWAIT HAS EXPRESSED INTEREST IN FINANCING EXPANSION OF BEIRUT AIRPORT. SAUDI ARABIA WAS LOOKING AT DOWNTOWN BEIRUT INFRASTRUCTURE PROJECTS. ABU DHABI WAS LOOKING AT HIGHWAY PROJECTS. HOSS SAID GOL WAS NEGOTIATING WITH

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ALL THESE POTENTIAL DONORS. ALSO, THE WORLD BANK HAD ALREADY AGREED TO RESTRUCTURE ITS OLD LOANS TO LEBANON AND GRANT NEW ONES. THE EUROPEAN ECONOMIC COMMUNITY HAD COMMITTED ITSELF TO FINANCIAL ASSISTANCE IN THE AMOUNT OF 30 MILLION ACCOUNTING UNITS (APPROXIMATELY \$38 MILLION).

6. SECRETARY VANCE ASKED, WHAT COUNTRIES WOULD ASSIST REBUILDING THE LEBANESE ARMY? BOUTROS SAID THAT GOL HAD NOT YET CONTACTED ALL THE PARTIES, WAITING TO SEE WHAT THE US AID PACKAGE MIGHT LOOK LIKE. THEY HAD NOT YET DETERMINED THEIR EXACT REQUIREMENTS. NEVERTHELESS, HE THOUGHT THAT BOTH ARAB AND EUROPEAN STATES WOULD BE OF ASSISTANCE. (AT THIS POINT, THE SECRETARY AND AMBASSADOR PARKER DEPARTED FROM THE LARGE MEETING, TO CALL ON PRESIDENT SARKIS; THE MEETING CONTINUED INFORMALLY).

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7. DEPUTY SECRETARY HABIB ASKED ABOUT SITUATION IN SOUTH LEBANON AND LEBANESE RELATIONS WITH PALESTINIANS. HOSS SAID SITUATION WAS NOT MUCH BETTER; CAIRO AGREEMENT BEING IMPLEMENTED IN STAGES. PHASE ONE OF RECENT LEBANESE-PALESTINIAN-SYRIAN AGREEMENT HAD BEEN HIGHLY SUCCESSFUL. PHASE TWO WOULD ALSO BE IN BEIRUT AREA, AND WOULD FOCUS ON COLLECTION OF WEAPONS. IN SOUTH LEBANON, THERE HAD ALREADY BEEN SOME WITHDRAWALS, BUT UNOFFICIALLY. PROBLEM WAS THE NON-AVAILABILITY OF LEBANESE FORCES. HE SAID GOL HOPES TO HAVE SOME KIND OF FORCES AVAILABLE FOR THE SOUTH WITHIN TWO WEEKS. SO FAR, THE PALESTINIANS WERE COOPERATING.

8. TURNING TO EXPORT-IMPORT BANK ASSISTANCE TO LEBANON, HOSS OBSERVED THAT WHEN THE BANK DELEGATION VISITED LEBANON SOME TWO MONTHS AGO GOL ASKED ABOUT HELP TO DAMAGED LEBANESE INDUSTRY. HABIB NOTED THAT THE BANK WOULD PERHAPS BE INTERESTED IN "PROJECTS," BUT WAS NOT FAVORABLY DISPOSED TOWARDS PROGRAM LOANS. HOSS SAID HE HOPED THAT, IF EXIM RESUMED LOANS TO LEBANON, SIMILAR INSTITUTIONS IN OTHER COUNTRIES WOULD FOLLOW SUIT. MR. HABIB PROMISED TO GET A MORE PRECISE ANSWER FROM THE USG ON EXIM BANK ACTIVITY IN LEBANON.
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9. RETURNING TO POLITICS, HOSS ASKED, WHAT WERE U.S. VIEWS ON IDEA OF UNITED NATIONS FORCES IN SOUTH LEBANON? MR. HABIB RESPONDED THAT THIS WAS A QUESTION WHICH GOL AND USG HAD ALREADY DISCUSSED SOME TIME AGO. ISRAELI

PRIME MINISTER BEGIN HAD SAID HE HAD NO OBJECTION IN PRINCIPLE. HOWEVER, USG HAD NOTED THAT THERE HAD APPARENTLY RECENTLY BEEN REAL PROGRESS ON A LEBANESE-PALESTINIAN ACCOMMODATION. HABIB WONDERED IF IDEA OF UN FORCES WAS STILL RELEVANT, AND ASKED WHAT GOL HAD IN MIND IN TERMS OF DEPLOYMENTS AND SIZE OF FORCES. HOSS RESPONDED BY ASKING IF ISRAEL WOULD OBJECT TO THE IDEA, REGARDLESS OF THE SIZE OF FORCES AND DEPLOYMENTS. HABIB SAID THAT USG HAD NOT DISCUSSED IDEA IN DETAIL WITH ISRAEL.

10. ON THE LEBANESE ECONOMY, PRIME MINISTER HOSS NOTED THAT GOL HAD A BUDGET DEFICIT THIS YEAR OF SOME 300-400 MILLION LEBANESE POUNDS. HABIB ASKED IF PRIVATE INVESTMENT MONEY WAS COMING IN AGAIN TO LEBANON. HOSS SAID, VERY LITTLE, AND NOT AT ALL FROM THE GULF STATES. MR. ATHERTON NOTED THAT U.S. CONGRESS WAS VERY UNENTHUSIASTIC ABOUT GRANT AID. THERE WAS A U.S. GRANT AID PROGRAM TO JORDAN, BUT IT HAD BEEN GOING ON FOR A NUMBER OF YEARS. NEVERTHELESS, THERE WAS VERY STRONG SYMPATHY FOR LEBANON IN CONGRESS, AND IT WOULD LOOK FAVORABLY ON PROJECT LOANS. ATHERTON NOTED THAT CONGRESS NOWADAYS WAS LOOKING CLOSELY AT EVERY SINGLE AID PROJECT.

11. HOSS NOTED THAT LEBANESE GOVERNMENT WAS ALREADY DEEPLY IN DEBT TO LEBANESE CENTRAL BANK - ABOUT ONE BILLION POUNDS. ATHERTON ASKED IF HE MEANT THAT LEBANON THEREFORE NEEDED DIRECT BUDGET SUPPORT. HOSS
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SAID YES.

12. ON FOREIGN GRANT AID, HOSS SAID LEBANON HAD RECEIVED SOME 50 MILLION LEBANESE POUNDS FROM SAUDI ARABIA AND 30 MILLION LEBANESE POUNDS FROM KUWAIT FOR HOUSING. THE UAE HAD PROMISED GRANT AID, BUT HAD NOT YET DELIVERED. ATHERTON ASKED WHAT WAS PROBLEM WITH ARAB STATES. HOSS RESPONDED BY SAYING REAL PROBLEM WAS WITH LOANS TO HELP THE PRIVATE SECTOR. ARAB STATES HAD ALREADY AGREED ON A MODUS OPERANDI, WHEREBY THEY WOULD JOINTLY ESTABLISH A SPECIAL ACCOUNT IN THE LEBANESE CENTRAL BANK TO CHANNEL FUNDS THROUGH RECONSTRUCTION AND DEVELOPMENT COUNCIL. HOWEVER, THE ARAB POLITICAL DECISIONS TO GRANT THIS KIND OF AID TO LEBANON HAD NOT YET BEEN TAKEN. ON THE USE OF SUCH AID, HOSS SAID IT WOULD BE PRIMARILY TO REFLOAT THE PRIVATE SECTORY BY RE-LENDING THE MONEY TO INDUSTRIES ON SOFT TERMS.
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